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index number for December was 7364, the highest point ever reached, compared with 6212 in November 1918, an increase of 18.5 per cent; during the same period the *Statist* index increased 20.5 per cent. Prices in other countries increased even more during the year. On page 8 of this number we print an article on "World Currency Expansion during the War and in 1919 as Reflected in Statistics of the Leading Central Banks." The conclusion of this article is: "The signing of the peace treaty finds the world with currencies generally more expanded than on Armistice Day, and with some newly risen expansion movements succeeding in recent months the contraction tendencies which set in late in 1918. As in war time, exigencies of the national treasuries of European belligerents have continued to swell the circulating media. Important signs of improvement are the recent increases in bank discount rates in several countries, the movements in France and Italy to fund the advances from the Banks, and the British determination to cease further expansion through currency notes. There is yet no evidence of any important degree of currency contraction, or of effective deflation through increased production and exchange."

The present banking situation in the United States is considered in the article on "The Basis for Credit Expansion under the Federal Reserve System" on page 2 of this REVIEW. On January 9 the ratio of total reserves to net deposit and federal reserve note issues combined was 45.4 per cent, and excess reserves were \$335,000,000, compared with about 50 per cent and \$500,000,000 at the signing of the armistice. On January 16 the figures were 45.1 per cent and \$328,000,000. The conclusion of the article just referred to is that, "In view of the fact that the Federal Reserve Board has not only definitely announced but has inaugurated a policy of increasing rates of discount, we should view the financial situation with confidence rather than with distrust. The analysis which we have just made of the condition of the federal reserve system taken in connection with the announced discount policy of the Federal Reserve Board, reveals a situation that does not call for pessimism whether of lighter or deeper dye. Although the outlook for 1920 is for a continued large demand for credit that will not be supplied except at increasing rates, yet the condition of the federal reserve system does not offer ground for apprehending anything in the nature of a serious financial disturbance."

It is to be remembered in this connection that there is a strong seasonal movement in interest rates, bank reserves, and notes in circulation during the autumn and winter. On October 31, 1919 net demand deposits of the combined federal reserve banks were \$1,851,000,000 and federal reserve notes in actual circulation were \$2,753,000,000. On December 26 net demand deposits were \$1,704,000,000 and notes in circulation were \$3,058,000,000. During this period, therefore, net deposits decreased and notes in circulation increased. A similar movement took place in 1918; net deposits decreased from \$1,663,000,000 to \$1,553,000,000 between Novem-

ber 1 and December 27, 1918, and notes in actual circulation increased from \$2,516,000,000 to \$2,685,000,000. Between January 2 and January 16, 1920, there was a decrease of \$32,000,000 in net deposits and of \$49,000,000 in notes in circulation. The reserve ratio should increase in January and February. There was an increase from 43.7 per cent on January 2 to 45.4 per cent on January 9 followed by a decrease to 45.1 per cent on January 16.

In trying to estimate the probability that the Federal Reserve Board will adhere to its announced policy of opposing credit and currency expansion the contrast between statements in the October and December *Federal Reserve Bulletin* is significant.

In October the Board stated in its argument: "Credit, as such, cannot . . . be said to be the cause of price changes. . . . It may be stated as a general proposition . . . that changes in the volume of currency in times of expansion follow price changes. They do not precede them" (pp. 912, 913). The Board said further that the objects of the control of discount rates "are to regulate the volume and uses of credit so as to give to productive industry at all times the beneficial effects of credit stimulus and support without, however, opening the way to the costly evils of credit and price inflation" (p. 911, italics ours). These statements were disquieting. Adherence to the policy announced would surely lead to over-expansion and ultimately to an explosion. If business were to "be stimulated at all times" during 1920 the outlook would be ominous. Encouragement is given, however, by the Board's statement in the December *Bulletin* that "the month of November has been marked by a sharp upward movement in prices, not only in the United States but abroad. *This change in the price level, although due in part to seasonal conditions, is evidently to be attributed mainly to the continued expansion of banking credit throughout the world*" (p. 1110, italics ours). This is a decided reversal of position concerning the relation between currency and prices and it is to be hoped that the discount policy of the Board will be directed by the latter rather than the former theory.

II. THE THREE GROUPS OF SERIES

During December none of the three groups of series exhibited any new developments that call for special consideration at this time. The series included in each group remain the same as in 1919 and may be found on pages 4 to 6 of the December SUPPLEMENT.

During 1919, in order that our readers might follow in all its details the movement of our index of business conditions, we have published from month to month charts showing each of the three groups of series entering into the index. Hereafter we shall not publish these charts oftener than twice a year unless from time to time it happens that there is some unusual development which makes their publication desirable. Every six months, therefore, our readers may expect to receive all

the details concerning the construction of our index. We will, however, publish monthly in an appendix "corrected items of various series of business statistics" and other material of interest to technical readers. By this arrangement we shall be able to eliminate from our regular monthly publication technical details which have little interest for the average reader.

III. THE INDIVIDUAL SERIES¹

(A) THE SPECULATIVE GROUP

New York bank clearings increased to a new record figure of \$23,980,000,000 in December from \$22,590,000,000 in November. This is an increase of 6 per cent which is slightly more than the usual seasonal movement. The seasonal variation in November was also normal. Usually January clearings run 6 per cent over those for December, and February clearings run 22 per cent under those for January.

The total clearings for the year amounted to nearly 236 billion dollars, compared with 179 billion in 1918, 177 billion in 1917, and 160 billion in 1916. Previous to the war the maximum figure was 105 billion in 1906.

The average price of twenty industrial stocks for December was \$105.60 compared with \$110.80 for November, \$113.90 for October. During November the average price decreased from the high record of \$119.62 on November 3 to \$103.60 on November 29. The lowest point reached in the decline last summer was \$98.46 on August 20. There was a strong upward movement between February and July, when the average increased from \$82.40 to \$109.70. During the first half of January 1920 the minimum reached was \$102.00 on the 14th.

¹ Monthly figures from November 1918 are given in the accompanying table. For monthly data 1903-18, see THE REVIEW OF ECONOMIC STATISTICS, at pages shown in the table on p. 8 of the December SUPPLEMENT.

The average for the year 1919 is \$99.70 compared with \$81.00, \$87.70, and \$94.80 for 1918, 1917, and 1916, respectively.

The average price of twenty railroad stocks was \$75.20 in December compared with \$79.60 in November and \$81.40 in October. During the period from May 26 to December 12, 1919, there was a decline from \$91.13 to \$73.63. The low point reached in the panic of November 1907 was \$84.20. We have to go back to 1898 to get a lower monthly average than the quotations ruling at the present time.

The average for the year 1919 was \$83.30, the same as that for 1918, compared with \$91.30 in 1917, and \$105.40 in 1916.

The number of shares sold on the New York Stock Exchange during December was 24,850,000, compared with 30,170,000 in November, and 37,350,000 in October, the last named figure being the highest record since January 1906 when 38,510,000 shares were sold.

During 1919 the total number of shares sold amounted to the record figure of nearly 317,000,000 compared with the previous record figure in 1906 of 284,000,000 shares. The volumes of sales in 1918, 1917, and 1916 were 144,000,000, 186,000,000, and 233,000,000 shares respectively.

The average yield on ten American railroad bonds in December was 5.56 per cent, the highest on record. There has been a steady increase in yield since October.

The average yield for 1919 was 5.36 per cent compared with 5.31, 4.78, and 4.43 in 1918, 1917, and 1916, respectively. There has been a fairly constant increase in yields since 1902, when the average was 3.78 per cent. The period of increasing commodity prices for the last twenty years has been a period of decreasing bond prices.

Dow, Jones and Company's combined index for the

ACTUAL ITEMS OF FUNDAMENTAL SERIES OF BUSINESS STATISTICS, 1918-19*

	GROUP A												GROUP B					
	New York clearings (Units of \$10,000,000)		Price of industrial stocks \$ (Units of \$1)		Shares traded (Units of 10,000 shares)		Building permits (Units of \$100,000)		Yield on ten railroad bonds (Units of one per cent)		Price of twenty railroad stocks \$ (Units of \$1)		Outside clearings (Units of \$10,000,000)		Bradstreet's prices* (Units of \$1)		Bureau of Labor prices † (Units of one per cent)	
	1919	1918	1919	1918	1919	1918	1919	1918	1919	1918	1919	1918	1919	1918	1919	1918	1919	1918
January	1786	1472	81.6	76.6	1186	1362	134	212	5.13	5.25	82.8	79.1	1456	1183	18.53	17.96	203	185
February	1419	1226	82.4	80.0	1221	1142	207	173	5.24	5.27	83.1	80.2	1160	1000	17.63	18.08	197	187
March	1649	1384	86.5	78.0	2140	842	328	190	5.29	5.32	84.3	80.7	1359	1224	17.22	18.05	201	187
April	1733	1409	91.2	77.6	2859	740	495	286	5.31	5.37	84.6	79.1	1326	1239	17.28	18.44	203	190
May	1888	1556	99.4	81.0	3441	2114	640	259	5.26	5.29	88.4	81.8	1428	1271	17.24	18.89	207	191
June	1975	1486	103.6	80.4	3286	1177	778	243	5.24	5.37	88.7	83.0	1449	1246	18.09	18.98	207	193
July	2188	1540	109.7	81.8	3450	845	759	246	5.33	5.43	88.3	82.8	1562	1324	18.90	19.18	219	198
August	1953	1496	103.2	82.0	2443	689	954	225	5.47	5.47	82.6	84.4	1516	1320	20.00	19.12	226	203
September	1961	1366	108.2	82.5	2414	776	839	185	5.54	5.51	80.4	85.4	1596	1271	19.47	19.05	221	207
October	2371	1692	113.9	86.2	3735	2067	862	118	5.42	5.39	81.4	88.4	1806	1516	19.52	19.02	223	205
November	2259	1561	110.8	84.0	3017	1465	853	81	5.54	4.98	79.6	89.0	1672	1375	19.90	18.91		206
December	2398	1666	105.6	82.5	2485	1192	913	85	5.56	5.06	75.2	85.6	1838	1415	20.18†	19.02		207

* Data are monthly averages or aggregates except for two series: *Bradstreet's prices* relate to the first day of the month, and *Unfilled orders of the United States Steel Corporation* to the last day of the month.

† The figure for *Bradstreet's prices* for January 1920, is \$20.36.

‡ Base, 1913.

§ Beginning with November, these prices are computed by taking the mean of the daily averages, rather than by taking the mean of the high and the low average for the month, as formerly.